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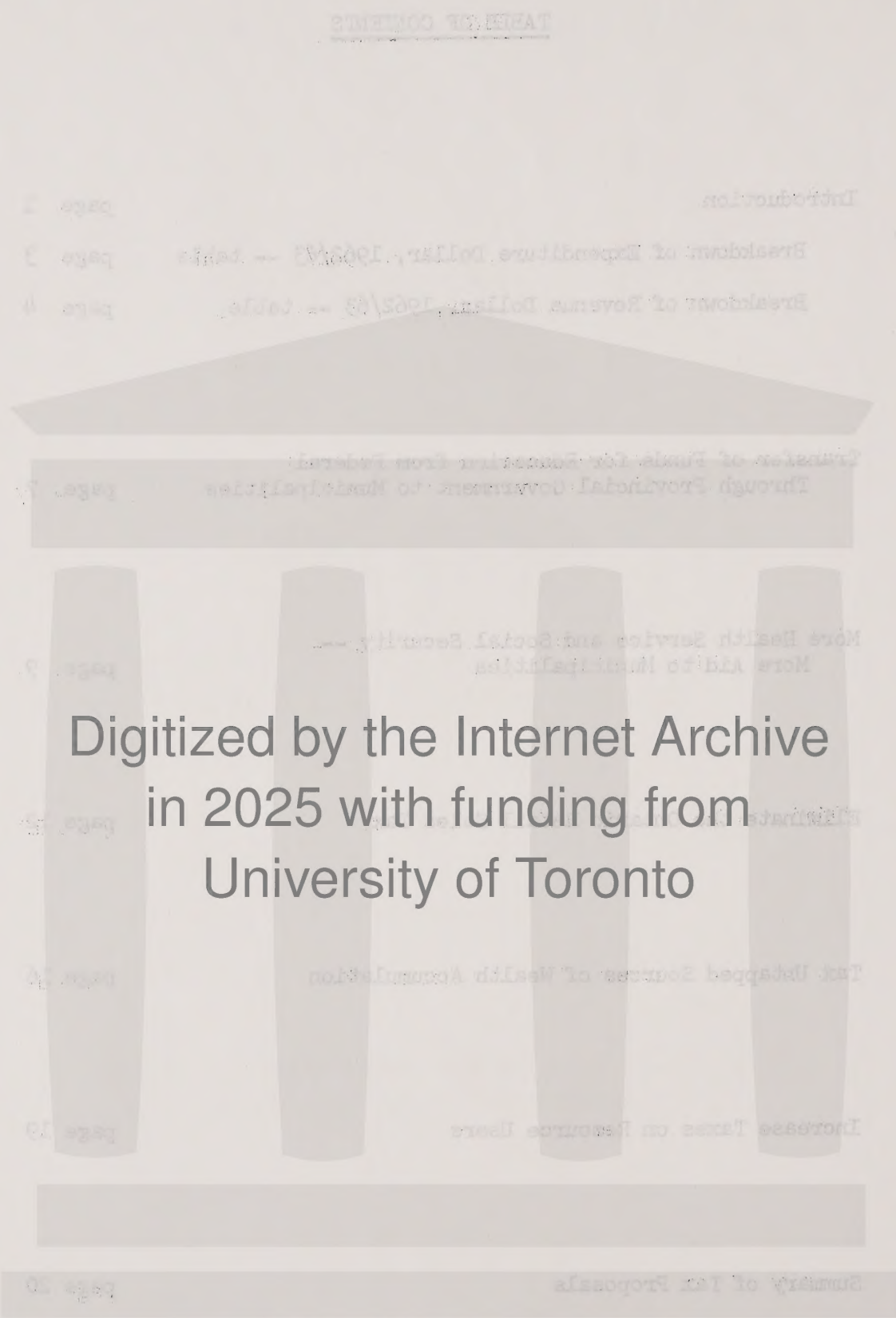
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February 6, 1964

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BRIEF TO ONTARIO COMMITTEE ON TAXATION

INTRODUCTION

The United Electrical, Radio and Machine Workers of America (hereafter referred to as UE) represents some 20,000 production workers in Ontario industries basic to a modern, industrialized country. Our approach to taxation is that of its burden and benefit to an average industrial worker's family -- thus to the economic foundation of the nation. We believe, therefore, that the views expressed herein would receive the support of a large section of the Canadian people.

We recognize the need of governments today for large and increasing revenues to meet their growing responsibilities to the people. These responsibilities cover the things that individuals cannot do well for themselves. They include: the public administrative functions of society, the provision of public services, the distribution of basic social security, the promotion of economic development and growth. In the main, the first three kinds of activity are properly financed out of current revenues and the fourth out of borrowing.

Over the years, the growing responsibilities of the different levels of government have not been matched by appropriate increases in the revenue sources available to each level. The mounting needs for and costs of education, urban services, etc., have driven municipal governments to place an ever-increasing burden of taxes on home owners. The costs of necessary expanded health and hospital services have led provincial governments to resort to sales and other indirect taxes bearing heavily on the consumption of middle and lower

income families. The UE recognizes the very serious need to solve this problem of division of revenues between governments, since the present unsatisfactory situation bears particularly heavily on workers' families. We are not pursuing this important matter further in this Brief, except to recommend more federal assistance in the field of education, in view of our desire to concentrate entirely on what to us appears to be the crucial questions -- how to reduce the burden of taxation on workers and their families, so releasing the brakes on effective demand for the economy as a whole to expand employment opportunities; and how to obtain the needed government revenues from sources of accumulation better able to pay taxes. We do wish to express the sincere hope, however, that the Committee will be successful in arriving at a democratic and lasting solution to the problem of gearing tax power to government responsibilities in the kind of world we live in today.

At the risk of seeming to labour the obvious, we believe it desirable to set out in summary form the fundamental tax philosophy underlying this Brief, namely:

- (a) the object of taxation is to raise the revenue necessary for governments to carry out their responsibilities to the people
- (b) all taxes are ultimately paid by people and come out of the current production of society
- (c) the incidence of taxation must be in accord with ability to pay
- (d) a tax system should be simple, widely understood and as economical to administer as possible.

For the people who pay the taxes, it is equally as important that governments use their funds effectively, as that they raise them equitably and efficiently. We realize that this side of government fiscal policy is not the direct concern of this Committee, but we cannot develop our discussion of taxation without a preliminary reference to what the taxpayers' dollars are used for in Ontario.

Below is a summary analysis of how the Ontario expenditure (current and capital account) was used in the fiscal year 1962/63 (based on 1962/63 estimates in 1963 budget papers).

BREAKDOWN OF EXPENDITURE DOLLAR, 1962/63

Administrative Functions

general government	8.1 cents	
debt charges	<u>5.1</u>	13.2 cents

Provision of Services

education	29.9	
hospital and other health services	15.7	
municipal affairs	3.8	
protection of persons and property	3.6	
motor vehicles administration	0.5	
recreation facilities	<u>0.6</u>	54.1

Social Security

general welfare & charitable institutions	1.1	
old age assistance and blind persons allowances	1.3	
mothers' allowances	1.2	
disabled & rehabilitation benefits	0.7	
child welfare & day nurseries	<u>0.5</u>	4.8

Economic Development

highways, roads & bridges	22.9	
forests	1.7	
water & power	1.5	
mines	0.2	
all other	<u>1.6</u>	27.9
		<u>100.0</u>

From a scrutiny of this expenditure breakdown, four points of economic significance strike one immediately:

- the largest single item is the education expenditure of 29.9 cents out of every dollar disbursed
- the next largest item is the expenditure of 22.9 cents on highways, which takes over four-fifths of the total spent for economic development
- the relatively large item of debt charges, which route back to the more well-off an amount exceeding the total social security benefits distributed
- the relatively small municipal subsidy in view of the needs and responsibilities of this level of government.

We believe that such observations point to the obvious need for some serious readjustment of provincial disbursement policies.

The sources of funds to meet all expenditures in the fiscal year 1962/63 (also derived from estimates in 1963 budget papers) are summarized below:

BREAKDOWN OF REVENUE DOLLAR, 1962/63

Direct Taxes on Persons

personal income tax	13.4 cents	
succession duties	<u>3.9</u>	17.3 cents

Taxes on Purchase Transactions

retail sales tax	15.4	
L.C.B.O. profits	8.0	
amusements & race track taxes	1.0	
land and securities transfer taxes	<u>0.6</u>	25.0

Taxes from Business Profits

corporate tax	16.2	cents
mining tax	1.2	
logging tax	0.2	
other	<u>0.2</u>	17.8 cents

Resource User Fees and Taxes

highways --		
motor fuel taxes	15.7	
motor vehicles	<u>6.3</u>	22.0
forests --		
timber dues	1.1	
rents, fish and		
game licences	<u>0.6</u>	1.7
water & power --		
rentals and hydro	<u>0.9</u>	24.6

Miscellaneous

misc. revenues	2.5	
misc. capital receipts	4.6	
net debt increase	7.8	
Federal gov't. subsidy	<u>0.4</u>	<u>15.3</u>
		<u>100.0</u>

Four economic observations can be derived from this revenue breakdown:

- taxes on purchase transactions (including motor fuels) and motor vehicle permits, licences and fines together produce nearly half the total revenue
- taxes collected by levies on business profits (the incidence of which is largely passed on to consumers) provide less than one-fifth of total revenue
- the Federal statutory subsidy provides an infinitesimal amount of revenue to Ontario
- resource user fees and taxes about cover annual expenditures on highways and forests, do not even equal annual expenditures in other resource fields, and provide no return for the liquidation of the asset.

We shall suggest some major readjustments of provincial revenue collection arising out of these observations.

The UE wishes to establish clearly at the outset, that our point of departure for a discussion of taxation is our firm belief that the main burden of Canada's taxes is borne by workers of hand and brain, and that a reduction of this burden would be good for the Canadian economy. Consequently, we believe that tax policy must move steadily and fairly rapidly in the direction of exempting the average worker's family, which needs to increase its consumption, from income tax; of eliminating the regressive retail sales taxes; of reducing the number and rates of all other indirect taxes; of maintaining the required level of government revenues from increased personal tax collections levied on all kinds of wealth accumulations. At the same time, of course, government expenditures must be controlled and channelled into activities of the most benefit to the greatest number of Canadians.

TRANSFER OF FUNDS FOR EDUCATION FROM FEDERAL
THROUGH PROVINCIAL GOVERNMENT TO MUNICIPALITIES

Rapidly changing social and environment conditions are imposing the need for constant overhaul and expansion of the system of public education. The recent realization of the necessity of more science education as primary equipment in today's world is a case in point. The coming of automation presents a need for much more adult education to equip people for the new conditions both of work and leisure. Already educational costs are the biggest single item in the Provincial budget and the educational expenditures of municipalities have raised school taxes to be a very heavy burden on small homeowners.

It is quite apparent, in our opinion, that more funds must be made available at the municipal level for education. Eighty per cent of the property tax now goes for education. Property taxes on the great majority of homeowners are already too high, so additional revenue collection from this source should not be contemplated. There does not appear to be an untapped area of local taxation from which to gather more funds for education. Therefore, financial assistance must come from the provincial or federal government, but this should not disturb the present degree of local responsibility for and administration of general educational facilities.

Although the Federal Government's financial assistance to education has been mainly for university facilities, technical training and special schools for the armed forces, Indians and Eskimos, there is no reason why such assistance cannot be extended to general

education without undermining provincial rights and municipal responsibility in this field.

We suggest that this could be done by federal grants to provinces on a population basis to be passed directly on to municipalities on the same basis. Probably about \$300 millions annually would be needed in such grants at the present time, of which Ontario municipalities could expect to get about one-third in total.

A number of organizations in close touch with the problems of municipal financing of education have repeatedly urged the Federal Government to accept some responsibility for the costs of education -- for example: the Canadian Federation of Mayors and Municipalities, the Canadian Teachers Federation, the Canadian School Trustees Association, the Canadian Home and School and Parent-Teachers Federation, and others. We recommend that the Provincial Government petition the Federal Government to accept this responsibility and come to the aid of the municipalities and small home-owners in the manner suggested.

MORE HEALTH SERVICE AND SOCIAL SECURITY
-- MORE AID TO MUNICIPALITIES

The UE has repeatedly stressed the need for a comprehensive tax-supported health system, in Convention resolutions and in submissions to governments.

There are repeated rumours to the effect that premiums to the Ontario Hospital Services Commission will be raised. We state emphatically that if the original idea of financing hospital insurance approximately one-third each from premiums, federal and provincial contributions had been adhered to with respect to provincial contributions, there would now be a substantial surplus in the hands of the Commission. The Ontario Government's practice of lumping expenditures for mental and tuberculosis institutions together with contributions to hospital insurance has completely obscured the true situation. Mental and tubercular institutions were a provincial responsibility long before the hospital insurance scheme came into operation and there is no justification for calling the former a part of the latter. There is no justification for increasing the present insurance premiums. This specially ear-marked "tax" is already meeting more than the originally planned one-third of total hospital insurance expenditures.

In a recent Brief to the Ontario Medical Services Insurance Inquiry (dated December 11, 1963), the UE made the following proposal:

"As the required next step to complement the existing hospital insurance system in Ontario, UE proposes a comprehensive, compulsory medical insurance plan with coverage as follows:

- (a) Hospital -- including all services provided
- (b) Medical -- including preventive and well-baby care
- (c) Surgical -- including charges for anaesthetic and its administration
- (d) Diagnostic charges, x-ray, etc.
- (e) Charges for special nurses
- (f) Chiropractic and osteopathic charges
- (g) Charges for all drugs and medications
- (h) Charges for eye-glasses and hearing-aids
- (i) Charges for orthopaedic shoes, surgical appliances and artificial limbs, etc.
- (j) Ambulance charges
- (k) Charges for corrective and preventive dental care, including denture costs.

"The added fee for the medical insurance coverage above should be kept to a minimum -- certainly not more than the present hospital insurance premium. Cost above gross premium receipts should be paid by the province out of ability-to-pay taxes, including a capital-gains tax.

"The province should exempt completely from fees everyone (and their dependents) who is unemployed, in receipt of the federal old age pension, or any form of municipal, provincial or federal aid.

"Administration of the medical insurance plan should be merged with that of hospital insurance in the hands of an (enlarged if necessary) Hospital and Medical Services Commission.

"Such a program would place the hospital and medical service requirements of the people of Ontario on a sound and humane basis of need."

In the field of social services other than health, the municipalities generally squeeze on the distribution of needed benefits on the grounds of lack of funds. The tax on real property is not the place to look for additional revenues to alleviate this situation. But we believe it is possible for the province to give substantially more financial assistance to the municipalities for social security purposes. There are also important areas where increases in direct provision of social services by the province are needed. We refer specifically to the need for substantially increased expenditures for child welfare and day nurseries, for mothers' allowances and for old age assistance in the form of subsidized homes.

The fact that the Province of Ontario is spending more in debt charges than for all kinds of social security other than health is clear evidence, in our opinion, of the need for drastic revision of the balance of these expenditures. The sources of the required additional revenues, based on ability-to-pay taxation, will be discussed later in this Brief.

ELIMINATE THE ONTARIO RETAIL SALES TAX

The widespread demand on the part of business organizations to shift ~~tax~~ collections in the direction of expanded sales taxes, including imposition of this tax on services, is of grave concern to workers and their families. Any tax levied on income spent for consumption goods and services inevitably discriminates against those whose circumstances compel them to spend all or a high proportion of their incomes, compared to others who can save part of their incomes. In other words, for the income groups who have to spend all of their incomes, their consumption taxes must be a higher percentage of their incomes than for the wealthy, who save (and invest) a large part of their incomes. Obviously, the degree of discrimination is intensified for those who have to go into debt (over-spend) as has happened to so many in lower and middle income brackets in recent years. Furthermore, particular consumption taxes inject specific elements of discrimination: e.g. a sales tax on house furnishings and appliances discriminates against young couples furnishing their homes, right at the time when their incomes are lowest.

For property and all indirect taxes (consumption, corporate and others passed along in prices), there is the even more important objection -- that because of the absolute burden placed on lower income families the effect is to push down already low living standards.

A survey among UE Ladies' Auxiliary members, the wives who daily encounter the sales tax in doing the

family shopping, uncovered a host of objections to the Ontario sales tax and inequities in its application. A number of these are listed below:

1. all pensioners and unemployed families
(whose main source of income is from these social security benefits) should not have to bear sales tax
2. household furniture, major appliances and linens should not be taxed when new families are formed and set up housekeeping for the first time
3. household cleaning materials -- soaps, detergents, cleaners, waxes, polishes, tissues, etc. -- should be exempted
4. health needs, such as: drugs sold under generic names, cough syrup, headache pills, vitamin preparations, antiseptics, toothpaste, etc., not bought under prescription, should be exempted
5. kitchen utensils and small household appliances (priced under \$10) should be exempted
6. exempted students' supplies should be extended to include: pencils, pens, rulers, drawing materials, colouring books, exercise paper, etc.
7. children's clothes should be exempted in sizes beyond those designated, upon proof of size required

8. all second hand goods should be exempted,
as the tax has already been collected once.

Widening of the exemptions along the above lines, of course, would greatly complicate the administration and collection expense involved with the sales tax. What would be left to tax would be essentially adult clothing, cars, semi-luxury and luxury items. It would be preferable, in our opinion, to abandon the retail sales tax approach and get after luxury spending in other ways, such as taxing accumulations of wealth now untouched.

This is the general approach recommended in the UE Brief to the Royal Commission on Taxation last May. Dealing with this matter we proposed an initial step of reducing all retail sales taxes to a maximum of 2 per cent and expanding the exemptions to include all food and clothing (except furs). Our Brief continued:

"Make up the resulting lost revenue to the provinces by federal allocations of funds cut from the military budget. The total cost (i.e. lost provincial revenues) from cutting retail sales taxes to 2 per cent would be about \$200 millions a year. This will have to be made up to the provinces from federal revenue. Initiate discussions with the provinces looking towards complete dismantling of the retail sales taxes and attendant collection machinery." (Para. 79)

This was along the general line subsequently adopted by the UE Twenty-seventh Annual Convention last November embodied in the Resolution which read in part as follows:

"Plan early elimination of all sales taxes, corporation taxes and substitute with a tax on annual increments in wealth by changing rules for reporting on shareholding and other sources of increased wealth."

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(The Hon. J. G. Macdonald, M.P.,
Min. of Finance, 1955, page 123)

See further:

"The early elimination of all sales taxes, corporation taxes and substitute with a tax on annual increments in wealth by changing rules for reporting on shareholding and other sources of increased wealth."

TAX UNTAPPED SOURCES OF WEALTH ACCUMULATION

The fundamental trouble with the Canadian tax system is the artificial distinction drawn between capital and income, with taxes levied only on the latter. Not only does this system exclude important accretions of wealth from taxation altogether, it is a cause of much economic waste: in efforts to reduce taxes by minimizing what is defined as income, and in administration of a tax structure with a gigantic built-in loop-hole.

The argument for an all-inclusive concept of "income" was clearly stated by three of the Commissioners in their Memorandum of Dissent to the Report of the British Royal Commission on Taxation 1952-55, as follows:

"In our view the taxable capacity of an individual consists in his power to satisfy his own material needs, i.e. to attain a particular living standard. We know of no alternative definition that is capable of satisfying society's prevailing sense of fairness and equity. . . .

". . . . no concept of income can be really equitable that stops short of the comprehensive definition which embraces all receipts which increase an individual's command over the use of society's scarce resources -- in other words, his net accretion of economic power between points of time!

(Her Majesty's Stationery Office,
Cmd. 9474, 1955, page 355)

and further:

"The full significance of the omission of capital profits from taxation only becomes clear, however, when it is appreciated that the extent to which rewards take the form of tax-free capital gains rather than taxed dividend income is not something that is fixed by nature, but is very much

subject to manipulation by the taxpayer. A community with a highly developed capital market like Britain offers wide opportunities for an individual so to arrange his affairs that the accrual of benefits from his ownership of capital takes the form of capital appreciation instead of capital income.

.

". . . in our view so long as capital gains remain exempt from taxation it is impossible to deal with the problem of the conversion of income into capital gains in all its possible forms by specific pieces of legislation.

"All these opportunities, moreover, are far more readily available to the large property owner than to the small saver; and it is well known from American experience that capital gains are a major source of large incomes but unimportant as a source of smaller incomes. . ."

(ibid., pages 368-70)

The acceptance of this concept, with which we fully agree, means that owners should not be able to escape taxation by covering major parts of their expenditures out of corporation funds ("corporate living"), or by increasing their economic power by accumulations of wealth inside the corporate shield, or by capital appreciation in their own hands. These are the great untapped sources of government revenue in Canada which must be taxed to provide the funds needed to meet increasing government responsibilities, while relieving lower paid wage and salary earners of an oppressive tax burden, and so increasing consumer demand.

We appreciate the difficulties involved in one province attempting to go far in the direction of capital gains taxes while other provinces do not,

but we believe the time has come for a beginning to be made and suggest the following two steps immediately:

1. Ontario should require all residents to include realized capital gains as income and should apply the current level of Ontario income tax to them, collection to be made by the federal tax authorities as for the Ontario income tax.
2. Ontario should petition the federal government to apply an all embracing tax on total accumulations of wealth at progressive income tax rates, the proceeds to be shared with the provinces on the same basis as the present income tax collections.

INCREASE TAXES ON RESOURCE USERS

Reference to the breakdowns of the expenditure -- revenue dollar (pages 3 - 5) shows that resource users generally are not providing enough revenue to cover total annual expenditures in this field, not to speak of paying the province something for use-up of these resources. In our opinion the royalties, fees and other charges for use of natural resources should be increased, so that the people of Ontario get at least some indirect benefit from the exploitation of their natural heritage.

As regards provincial highways, it appears that user payments in the form of motor fuel taxes and motor vehicle licences and permits nearly equal total annual expenditures (current and capital). This evidence is somewhat misleading, however, because the municipalities have heavy expenditures for urban streets but practically all the revenue from users of streets and highways goes to the province. In principle, we believe that total revenues from users of highways and streets should approximate total expenditures on provision and upkeep of these assets. To bring about this balance would seem to require moving in two directions -- closer scrutiny of the real need for additional large capital expenditures and the channeling of more user revenue to the municipalities.

SUMMARY OF TAX PROPOSALS

1. transfer federal funds for education through province to municipalities
2. initially reduce provincial sales tax to 2 per cent; proceed towards complete elimination by replacement of revenue loss from federal government
3. institute tax on realized capital gains at provincial income tax rate; petition federal government to impose over-all tax on increments of wealth and distribute to provinces on same basis as present personal income tax
4. increase levies on users of resources in order to compensate for annual expenditures plus return for natural assets used up.

